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Financial Data For Tax Exempt
Charitable Organizations

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TABLE OF CONTENTS

	<u>Page</u>
I. Introduction.	1
II. Coverage of Tabulations	2
III. Summary of Tabulations	4
IV. Comparison of 1962 and 1973 Surveys	6
V. Distribution by Size of Assets.	8
VI. Receipts and Expenditures	9
VII. Statistical Methodology11

Finally, the Form 990-PF returns for foundations constitutes an incomplete coverage of the foundation category because nonexempt trusts with charitable purposes are not included. Nonexempt trusts whose interests are entirely devoted to religious, charitable, and educational purposes ^{4/} are distinguishable in function from private foundations only by their lack of exemption. Trusts with both private and charitable beneficiaries (split interest trusts) have the attributes of a private foundation to the extent of the charitable interest. Nonexempt trusts with charitable interests are required to file Form 1041-PF. These have not been analyzed, but about 8,000 are filed each year. There may be considerable underfiling in this group.

In spite of the incompleteness of the coverage thus noted, the tables presented here reflect the best available current information from Treasury data on section 501(c)(3) organizations. The compliance rate for private foundations is probably high because of the extensive publicity given to the changes in the tax treatment of these organizations by the 1969 Act.

III. SUMMARY OF TABULATIONS

Table I summarizes the data on number of returns, assets and receipts. Private foundations are shown separately. Of the total of 119,380 returns, 29,255 were for foundations and 90,125 for other religious, charitable, and educational organizations. The latter figure is an understatement because "group returns" are counted as a single return. Total assets were \$125.8 billion with \$27.2 billion (22 percent) reported by foundations and \$98.6 billion by the other organizations. The value of the assets represents the value used for purposes of the organizations' own books. Except for certain security holdings, the figures are unlikely to reflect current market values.

Total receipts from all sources, including gifts and bequests, were \$60.7 billion. This involves some double counting because many of the grants by foundations were reported as receipts by colleges, hospitals, and similar organizations. Foundations accounted for \$3.7 billion of the \$60.7 billion total, while other organizations accounted for \$57.1 billion. Foundations comprise a much smaller proportion of the aggregate receipts than assets because most foundations are financed by gifts, bequests and investment income while the other organizations often carry on activities financed by fees and charges, (for example, schools and hospitals).

In the case of foundations, 73 percent of total receipts was derived from gifts and investment income. A comparative figure cannot be derived for the other 501(c)(3) organizations because of inadequate data on their investment income.

I. INTRODUCTION

The returns on Form 990 required to be filed by many of the organizations exempt under section 501(c) of the Internal Revenue Code contain financial data on the "charitable" aspect of our economy that have been tabulated only a few times in the past 30 years. However, in recent years the Internal Revenue Service has been placing on a computer tape certain items from the Form 990's. This paper attempts to summarize this information for returns for organizations exempt under section 501(c)(3). The data on number of returns, assets, and gross receipts are for returns filed up through the latter part of 1974, which means that generally the returns are for calendar year 1973 or for fiscal years ending in the early part of 1974. ^{1/} The additional details of income and expenditures are estimates based on a tabulation of returns filed covering calendar year 1972 and fiscal years ending early in 1973. As will be explained later, the tabulations for 1972 contain many inaccuracies, but they were the only material available for use at this time.

II. COVERAGE OF TABULATIONS

Form 990 returns provide an incomplete picture of the number and scope of charitable, religious, and educational organizations for three reasons. First, returns are not required to be filed by churches, their integrated auxiliaries, conventions or associations of churches, and the exclusively religious activities of any religious order. The exemption for churches and related religious organizations results in a significant gap. We know that the number of parishes, over 300,000 2/ far exceeds the number of other 501(c)(3) organizations--at least the number that file returns. Gifts and bequests to churches and religious organizations also constitute by far the largest single outlet for "charitable" gifts and bequests, making up over 40 percent of the total 3/ Aside from the omission of churches per se, the exemption from filing for integrated auxiliaries of churches can serve to excuse from filing some types of organizations which ordinarily are not recognized as a religious activity, for example, a hospital operated by a religious society.

Secondly, organizations, other than private foundations, whose gross receipts in each taxable year are normally not more than \$5,000 are not required to file returns. However, the Internal Revenue Service asked those so exempt to file a return for 1972 with a notation that their gross receipts were not more than \$5,000 so that the Service could have a record of the reason for future nonfilings. Many organizations did so file, and many filled out the financial data even though not required to do so. But the number of organizations in the under \$5,000 category which did not file is unknown.

It should be noted that the relative importance of gifts and investment income for foundations is somewhat overstated because of the way Form 990-PF is designed. The form (Part I, line 1) does not ask for receipts from business activities but for "Gross profit from business activities." This is gross receipts less "cost of goods sold," the latter being an ill-defined term. The "gross receipts" of the nonfoundation group of organizations is really total receipts from all sources.

Organizations other than foundations had an excess of receipts over expenditures of \$6.4 billion which was somewhat less than half of gifts and contributions received of \$12.9 billion. In other words, the nonfoundation organizations on the average depended on gifts and contributions for part of their operating expenses. Expenditure data for foundations could not be used because of tabulation errors.

Net investment income was tabulated only for foundations. Net investment income is that reported for purposes of the 4 percent tax on investment income. ^{5/} The estimate for 1973 of \$1.7 billion (derived from 1972 data in a manner described later) represented 6.2 percent of year end assets. The tax on net investment income was estimated to be \$69.7 million, or 4.1 percent of the estimated net investment income. ^{6/} The estimated tax is practically the same as the collection figure of \$69.8 million reported by the Treasury for fiscal 1974. However, in view of the problems associated with the construction of the table, it is possible that the agreement of the two investment income tax figures is merely coincidental.

IV. COMPARISON OF 1962 AND 1973 SURVEYS

In 1965 the Treasury Department issued a study on foundations which contained financial data derived from a survey covering the year 1962.^{7/} The study was intended to represent the universe of some 15,000 foundations which were accounted for by a tabulation by the Foundation Library Center from Form 990 returns. As shown in Table 2, the 1973 tabulation shows a much larger universe than in 1962. The number of foundations is nearly twice as large, 29,255 versus 14,865; and assets, using the ledger value for 1962, more than doubled, from \$11.6 billion to \$27.2 billion. However, the market value of assets increased in the 12 years by only 68 percent, from \$16.3 billion to \$27.2 billion. Total receipts increased by 93 percent, from \$1.9 billion to \$3.7 billion. Investment income (including capital gains) increased by 58 percent. The one statistic that showed very little growth was gifts and contributions. They were estimated to be \$833 million in 1962 and \$995 million in 1973, an increase of less than 20 percent.

The obvious question that arises when comparing the 1962 and 1973 data is whether the great increase in the number of foundations over the 11 year period represents a true increase or rather undercounting for 1962. It probably represents some of both, plus a third factor--a difference in the definition of what constitutes a foundation. Prior to the Tax Reform Act of 1969 there was some laxity by foundations in filing returns. The publicity associated with the passage of this law, plus the enactment of a monetary penalty for nonfiling, should have corrected this situation. But we also know from the 1965 study that there was an explosion in the establishment of private foundations between 1940 and 1960.

If the rate at which foundations were being established in the 1940's and 1950's ^{8/} had continued in the 1960's, practically all of the increase in numbers between 1962 and 1973 might have been accounted for by newly established foundations. Finally, there is the matter of definition. The list of foundations kept by the Foundation Library Center excluded organizations "which are restricted by charter solely to aiding one or several named institutions; or which function as endowments set up for special purposes within colleges, churches, or other organizations and are governed by the trustees of the parent institution." ^{9/}

Some of the organizations described in the first clause are private foundations under the terms of the 1969 law, but their importance in the 1973 tabulation is unknown.

V. DISTRIBUTION BY SIZE OF ASSETS

Table 3, which is based on Tables 4 and 5, gives a summary view of the relative distribution of the number of returns, assets, and receipts of foundations and other 501(c)(3) organizations by size of assets. Since some organizations neglected to fill out their balance sheets, it was necessary to include a zero asset category which accounted for 5.3 percent of the foundation returns and 14.7 percent of the other returns. Those lacking balance sheets were not very important except in terms of number of units. Only 0.6 percent of the receipts of the nonfoundations were accounted for by those returns without balance sheets.^{10/} For the foundations, the ratio was 1.1 percent.

Assuming that those without balance sheets generally have few assets (say under \$10,000), we find that the size distribution, as would be expected, is weighted toward the low side in terms of number of units and toward the high side in terms of assets or receipts.

The under \$10,000 asset categories include nearly 49 percent of the nonfoundation units but only 29 percent of the foundations. Some 1.9 percent of nonfoundation units had assets of \$10 million and over, while 1.2 percent of foundations belonged to this category.

Reported assets of units with less than \$10,000 are inconsequential in both categories. As to receipts, units of this size account for 1.6 percent (nonfoundations) and 2.3 percent (foundations) of the total. The concentration at the upper end of the scale is greater in the case of the nonfoundation group. Over 70 percent of the assets and over 60 percent of the receipts are accounted for by units with assets of \$10 million and over. For foundations, the ratios are 64 percent of the assets and 49 percent of the receipts.

VII. STATISTICAL METHODOLOGY

Information from 1973 returns was available for the number of returns, assets, and gross receipts classified by size of assets. Foundations were further divided into operating, nonoperating, and unclassified. In the case of nonfoundation returns, the tabulations covered only returns showing assets of \$5,000 or more.

To fill in the other receipt and expenditure items shown in the tables, plus the under \$5,000 category (or no asset returns) for other than foundations, recourse was had to a tabulation of 1972 returns by asset size classes. The reconstruction of the sources of receipts (except investment income) and types of expenditures for 1973 was made by applying the ratio of these items to total receipts in 1972 by size classes to the 1973 total receipts figures in each size class. Investment income for foundations was derived by applying the rate of return on assets by size classes in 1972 returns to 1973 asset figures, and the investment income tax was computed by applying the effective rate of tax shown in 1972 to the investment income computed for 1973.

Reconstructing the under \$5,000 and blank asset returns for other than foundations for 1973 was done by taking the 1972 data for number of returns, assets, and gross receipts for these size categories as a percent of the totals of these items for the 1972 data, exclusive of these size categories. The ratios then were applied to the 1973 data to estimate the blank and under \$5,000 asset size categories not tabulated for 1973.

Since there was only a year's lag between the two sets of returns, it is unlikely that the relative size distribution of returns, assets, and gross receipts varied too greatly between the two periods.

On the whole, the relative importance of sources of income and distribution of expenses is not likely to have varied greatly either.

The real problems in using the 1972 tabulations to reconstruct details of receipts and expenses, and investment income from the 1973 data are two fold. In the first place, the 1972 data were not checked after being punched. Merely looking at the computer printouts, a few figures can be spotted which are evidently wrong. Where it was apparent that the key puncher added or subtracted a digit at the beginning of a number, the figures were corrected. Other cases were used as shown in the printout because, even though undoubtedly wrong, there was no way of deciding what the correct answer was. Thus, one figure that was not changed that seems highly questionable is that for "Dues and assessments" for nonoperating foundations in the \$10,000 to \$25,000 asset class. The figure for "Gifts" in the \$100,000 to \$500,000 asset class of other 501(c)(3) organizations is even more suspect.

While, as stated earlier, the estimates of investment income and the tax on investment income are consistent with the reported figures on collection from this tax, this statement applies only to the totals. Looking at the figures (Table 5) for the three categories of foundations by asset classes, one immediately notes dubious figures. Some effective rates of tax differ considerably from the flat 4 percent rate and some rates of return on assets appear unrealistic.

VI. RECEIPTS AND EXPENDITURES

Tables 4 and 5 provide all the available detail as to receipts and expenditures by size of assets. Foundations also are separated between operating and nonoperating with a further tabulation for foundations whose status had not yet been determined. Most of this universe is accounted for by the nonoperating foundations.

Because of weaknesses in the original data, it is not possible to take the computations as to various types of receipts and expenditures and present them as a definitive picture of the situation in 1973. Keeping this caveat in mind, it seems reasonable to draw a few broad conclusions from the tabulations.

In the nonfoundation category, the importance of gifts, grants, and so forth varied inversely with the size of the organization. At the \$10 million and over asset level, gifts constituted less than 17 percent of gross receipts but at the under \$10,000 level the rate was about 46 percent. The larger organizations undoubtedly derived much of their income from charges and fees for goods and services, but detail to this effect was not tabulated. A similar inverse relationship of gifts to gross receipts is not noticeable in the case of foundations. The small foundations (under \$10,000 of assets) counted on gifts for over 60 percent of gross receipts. At the \$10 million and over level, gifts were less than 18 percent of gross receipts.

Investment income of foundations, as would be expected, is an important component of gross receipts. For all foundations, the ratio was 46 percent. Because gifts and contributions vary inversely in importance with the size of a foundation, the importance of investment

income tends to be correlated with size. For the under \$10,000 asset category, investment income was only 18.5 percent of gross receipts. At the \$10 million and over asset level, it was 55 percent.

Organizations other than foundations, as noted earlier, reported an excess of receipts over expenditures equal to 11 percent of receipts. No size class showed an excess of expenditures over receipts. The excess of receipts over expenditures did grow in relative importance as the organizations increased in size. For the under \$10,000 asset group, the excess was only 3.5 percent of receipts. The top size groups, over \$10 million of assets, retained 11 percent of receipts, the average for the whole group.

Fortunately those aberrations are concentrated in size categories that have little weight in the aggregate.

Another question that deserves consideration is the use of the computed rate of return on 1972 assets to estimate 1973 investment income. If the asset figures represent current market value at the end of the year, the use of the rate of return computed from 1972 investment income and year end 1972 assets should result in too low an investment income estimate for 1973. Interest rates and dividend yields were somewhat lower in 1972 than in 1973 and security prices were higher. ^{11/} Stock prices particularly declined sharply from the end of 1972 to the end of 1973. On the other hand, the asset figures could be ledger values which were not adjusted to market changes. In this case, the estimate for 1973 need not be very far off.

One further comment as to the validity of the 1972 data. Due to a confusion in instructions, the 1972 data do not represent a single count of each return. Each organization filing Form 990 or 990-PF was asked to list on its return its principal activities -- up to a maximum of three. All returns were identified as to activities so listed, and each return could receive a weight of 1, 2, or 3. However, the multiple counting procedure may not have unduly distorted the ratios computed from the 1972 data. The gift and contribution figure (taking into consideration the fact that double counting is involved in our tabulations) is not inconsistent with the estimates by the American Association of Fund Raising Counsel, Inc., and the investment income figure is consistent with the investment tax collection figures.

FOOTNOTES

¹ There also could be some delinquent returns for prior periods.

² Statistical Abstract of the United States, 1974, P.46.

³ American Association of Fund-Raising Counsel, Inc., Giving USA, 1975 Annual Report, p.7.

⁴ Characterized as "charitable trusts" in section 4947 (a)(1) of the Internal Revenue Code.

⁵ Taxable investment income does not include interest on tax exempt bonds. It would be expected that foundations would hold few such securities. The capital gains element reported on the form is less than actual gains.

⁶ As will be shown later, actual effective rates for subdivisions of the total vary inexplicably from the 4 percent rate.

⁷ Treasury Department Report on Private Foundations, February 2, 1965.

⁸ Treasury Department Report, op. cit., p.76.

⁹ Ibid. , p.77.

¹⁰ The ratio is understated because some returns also did not fill in the income statement.

¹¹ See data in Statistical Abstract of the United States, 1974, p.465.

Table 1

Summary financial data from Form 990 for private foundations and other charitable, religious, and educational organizations, 1973

(Dollar amounts in thousands)												
	Number of returns	Assets - end of year	Gross receipts				Total expenditures	Excess of receipts over expenditures	Tax on investment income			
			Total 1/	Investment income 2/	Contributions: gifts, etc.	Dues						
Charitable, religious, educational, except foundations	90,125	\$ 98,587,306	\$57,059,309		\$12,886,165	\$1,364,039	\$50,652,502	\$6,406,806	\$ 0			
Foundations												
Nonoperating	26,657	24,837,820	3,114,801	1,564,926	789,669	25,977			63,512			
Operating	1,161	1,716,624	358,048	82,204	108,748	1,593			4,685			
Unclassified	1,437	690,786	194,617	34,639	96,396	1,487			1,455			
Total	29,255	27,245,230	3,667,466	1,681,769	994,813	29,057			69,652			
Grand total	119,380	125,832,536	60,706,775		13,880,978	1,393,096			69,652			

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August 12, 1975

Source: Special tabulation of Form 990 returns.

1/ Gross receipts for foundations are understated because they include only "gross profits" from business activities.
2/ Net investment income as computed under section 4940 of the Internal Revenue Code. Excludes municipal bond interest and includes capital gains on the basis set forth in section 4940.

Table 2

Comparison of Data for Private Foundations from
Treasury Study for 1962 and 1973 Form 990-PF Returns

Year	(Dollar amounts in thousands)											
	: :	: :	: :	: :	: :	: :	: :	: :	: :	: :	: :	: :
	: Number of	: Assets	: Gross	: Total ex-	: Excess of	: Investment	: Gifts,	: Investment	: Grants,	: Income	: Investment	: Income
	: foundations	: receipts	: receipts	: penditures	: receipts	: income	: grants,	: (including	: etc.	: as percent	: as percent	: as percent
	:	:	:	:	: over ex-	: capital	: received	: of assets	:	:	:	:
	:	:	:	:	: penditures	: gains)	:	:	:	:	:	:
	:	:	:	:	:	:	:	:	:	:	:	:
	:	:	:	:	:	:	:	:	:	:	:	:
1962	14,865	\$11,648,000	\$1,898,000	\$1,012,000	\$ 886,000	\$1,065,000	\$833,000				9.1%	
		16,262,000									6.5	
1973	29,255	27,245,230	3,667,466			1,681,769	994,813				6.2	

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August 12, 1975

Sources: 1962: Treasury Department Report on Private Foundations, February 2, 1965, pp. 79 and 80.
1973: Table 1.

- 1/ Ledger value, beginning of year.
2/ Market value, beginning of year.
3/ End of year.
4/ Capital gains as defined under section 4940 of the Internal Revenue Code.
Municipal bond interest not included.

Table 3

Distribution by Size of Assets of Charitable, Religious, and Educational
Organizations and Private Foundations, 1973

Asset size (000) <u>1/</u>	Number of Returns			Assets			Gross Receipts		
	Other (c)(3) organizations :	Foundations :	Other (c)(3) organizations :	Other (c)(3) organizations :	Foundations :	Other (c)(3) organizations :	Other (c)(3) organizations :	Foundations :	Other (c)(3) organizations :
\$ 0	14.7%	5.3%	- %	- %	0.6%	1.1%			
1 to 5	27.0	17.4	<u>2/</u>	<u>2/</u>	0.5	0.8			
5 to 10	6.9	6.1	<u>2/</u>	<u>2/</u>	0.4	0.4			
10 to 25	9.6	11.8	0.1	0.2	0.9	0.9			
25 to 100	14.5	22.6	0.7	1.3	2.4	3.0			
100 to 500	13.4	21.8	2.9	5.4	5.4	8.4			
500 to 1,000	4.1	5.8	2.7	4.4	3.5	6.0			
1,000 to 10,000	7.7	8.0	22.6	24.4	25.3	30.9			
10,000 to 50,000	1.6	1.0	30.3	22.6	31.1	26.8			
50,000 and over	0.3	0.2	40.7	41.5	29.8	21.8			

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Source: Tables 4 and 5.

1/ "0" means that balance sheet was not filled out.

2/ Less than 0.05 percent.

NOTE: Columns will not add to 100 percent because of rounding.

Table 4

Financial data for charitable, religious, and educational organizations
(other than private foundations) by asset size, 1973

(Dollar amounts in thousands)

Asset size 1/	Number of returns	Assets - end of year	Gross receipts		Expenditures		Excess of gross receipts over expenditures	
			Gross income 2/	Dues and assessments from members, grants, etc.	Total	Cost of goods sold	Expenses at- tributable to: gross income	Disbursements: for exempt purposes
\$ 0	13,284	\$ -	\$ 193,395	\$ 28,081	\$ 143,387	\$ 21,848	\$ 109,599	214,998
1 to 5	24,378	29,075	119,592	33,985	155,756	12,629	88,045	206,884
5 to 10	6,243	45,414	99,849	21,181	124,015	10,609	78,198	144,970
10 to 25	8,665	141,610	217,216	38,423	261,296	39,549	123,633	337,315
25 to 100	13,026	693,071	505,872	83,386	754,459	80,048	347,547	866,792
100 to 500	12,096	2,825,207	1,343,810	178,245	1,568,124	174,240	822,291	1,782,725
500 to 1,000	3,732	2,655,141	1,147,967	104,285	732,846	141,979	587,208	1,002,308
1,000 to 10,000	6,984	22,265,016	10,701,977	391,475	3,360,163	1,383,119	5,229,022	5,928,719
10,000 to 50,000	1,486	29,835,405	14,519,685	269,097	2,971,066	3,604,258	5,778,297	7,339,531
50,000 and over	231	40,097,365	13,958,211	215,881	2,815,053	525,628	2,772,886	10,932,441
Total	90,125	98,587,306	42,807,574	1,364,039	12,886,165	5,993,907	15,936,726	28,736,683
					57,059,309		50,652,502	

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August 12, 1975

Source: Special tabulation of Form 990 returns.

1/ "0" means balance sheet was not filled out.
2/ Includes receipts from all sources other than dues and gifts.

Table 5

Receipts of Private Foundations
by Asset Size, 1973

(Dollar amounts in thousands)

Asset Size 1/	Number of Returns	Assets end: of the year	Gross receipts			Investment income	Tax on investment income
			"Gross income"	Gifts, grants, etc.	Dues and assessments from		
			2/	received	members	3/	
<u>Nonoperating</u>							
\$ 0	1,373	\$ 0	\$ 16,148	\$ 16,822	\$ 123	\$ 33,093	\$ 8,587
1 to 5	4,639	7,090	8,192	17,692	236	26,141	2,510
5 to 10	1,664	12,258	3,554	7,850	124	11,595	2,612
10 to 25	3,207	53,629	3,086	4,128	19,954	27,161	6,816
25 to 100	6,146	335,798	39,560	52,853	408	92,746	20,480
100 to 500	5,832	1,344,186	143,828	98,153	487	242,432	83,672
500 to 1,000	1,496	1,049,845	127,665	61,484	263	189,396	61,884
1,000 to 10,000	1,987	5,684,232	666,019	293,938	790	960,744	443,103
10,000 to 50,000	259	5,331,404	577,384	185,259	684	763,324	361,251
50,000 and over	54	11,019,377	713,770	51,490	2,908	768,169	574,011
Total	26,657	24,837,820	2,299,206	789,669	25,977	3,114,801	1,564,926
<u>Operating</u>							
0	37	0	557	2,366	-	2,919	583
1 to 5	137	237	283	1,691	25	2,004	296
5 to 10	39	274	87	2,099	4	2,191	4
10 to 25	68	1,125	112	1,444	2	1,559	16
25 to 100	195	10,593	1,627	6,945	97	8,669	927
100 to 500	271	70,248	8,347	13,804	154	22,300	1,974
500 to 1,000	140	100,724	9,673	11,851	86	21,611	4,283
1,000 to 10,000	241	691,992	66,263	39,757	1,225	107,257	27,034
10,000 to 50,000	30	659,336	154,212	23,438	-	177,649	34,232
50,000 and over	3	182,095	6,534	5,353	-	11,887	12,855
Total	1,161	1,716,624	247,695	108,748	1,593	358,048	82,204
							4,685

Table 5

Receipts of private foundations
by asset size, 1973
(Dollar amounts in thousands)

[illegible]

Office of the Secretary of the Treasury
Office of Tax Analysis

August 12, 1975

Source: Special tabulation of Form 990-PF returns.

"/ "0" means balance sheet was not filled out.

1/ "0" means balance sheet was not filled out.
2/ Includes receipts from all sources other than dues and gifts. Understated however, because only "gross profits" from business activities are included.

3/ Net investment income as computed under section 4940 of the Internal Revenue Code. Excludes municipal bond interest and includes capital gains on the basis set forth in section 4940. Largely included in "Gross Income."

4/ Gross Income.
Less than \$500.